FILE COPY

Office - Supreme Court, U. S.
FILED
FEB 11 1947
CHARLES ELMORE CROPLEY

Supreme Court of the United States

OCTOBER TERM, 1946.

NO. 28.

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, Respondent.

PETITION FOR REHEARING.

Jo. BAILY BROWN,
1706 First National Bank Building,
Pittsburgh, Pa.,
Attorney for Respondent.

RALPH H. SWINGLE,
JULIAN MILLER,
Pittsburgh, Pa.,
Of Counsel.

SMITH BROS. CO. INC., LAW PRINTERS, 434-436 BOULEVARD OF ALLIES, PITTSBURGH, PA.

Supreme Court of the United States

OCTOBER TERM, 1946.

NO. 28.

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, Respondent.

PETITION FOR REHEARING.

Respondent herein, Westinghouse, petitions the Court to grant a rehearing in this case. The Court's decision overrules several fundamental principles of general and patent law without adverting to or distinguishing the cases in this Court that established those principles. The decision is predicated upon the major premise of freeing the public from the monopoly of patents, but overlooks the fact that in the present case the patent has expired and that no relief whatever was sought upon the patent itself. Furthermore, the Court has, by statements which do not arise out of the issues before it, inserted dicta that will seriously prejudice the further litigation of this case in the state court.

1. The decision is based upon that in the *Katzinger* case, which in turn is largely predicated on "solicitude for the interest of the public fostered by freedom from invalid patents and from restraints of trade", although,

as distinguished from the *Katzinger* case (which involves an action for infringement of an *existing* patent), no such public interest is actually involved in this case, which is merely a suit on a contract for the royalties accrued on a patent that *expired* on December 6, 1944.

All of the cases cited in the opinions of this Court in the *Katzinger* and *MacGregor* cases to support the proposition that a public interest is involved (the *Sola, Marcalus,* and *Mercoid* cases) had to do with *live* patents, which at the time this Court rendered its decision therein were existing "monopolies" in which the public was said to have had a dominant interest. In the present case, the only effect of the state court decision appealed from is to require a licensee to pay the money he agreed to pay under an express contract. The judgment of the state court cannot possibly impose upon the public either an invalid patent or a restraint of trade. Nor, since the patent has expired, would holding it invalid free the public of any monopoly or restraint of trade.

---

2. The decision overrules what has heretofore been a canon of jurisdiction in this Court, adhered to for at least seventy-four years, that the judgment of a state court will not be reviewed where that judgment rests upon an adequate nonfederal ground that makes it unnecessary to determine the federal question raised.

In *Fox Film Corp. v. Muller,* 296 U.S. 207, 56 S. Ct. 183 (1935)[1], the plaintiff brought suit in the state court

---

[1] This case, strongly relied on in the previous arguments as controlling in the present case, is not distinguished or even referred to in the present opinion of this Court.

of Minnesota upon a contract that contained a provision invalid under the Federal Anti-Trust Act. In dismissing the writ of certiorari for want of jurisdiction, this Court referred to the established rule stated above and then said at page 210:

> *"Whether the provisions of a contract are nonseverable,* so that if one be held invalid the others must fall with it, *is clearly a question of general and not of federal law."*[2]

In the present case, however, the Court has held just the opposite:

> "* * * his [MacGregor's] contention [that the price-fixing clause was invalid under the Federal Anti-Trust Act] raised federal questions not governed by state * * * contract severability rules."

In the *MacGregor* case, the trial court held, in accordance with the established law of Pennsylvania[3], that "the price-fixing clauses * * * are divisible subject matter * * * with no effect on the obligation to pay royalty." This was affirmed by the Supreme Court of Pennsylvania, and that determination of a question of general law should, on the authority of *Fox v. Muller, supra,* be binding on this Court until and unless that case is expressly overruled.

---

3. The decision also overrules what has heretofore been established law in this Court that where a contract,

---

[2] All emphasis in quotations in this petition has been added.

[3] *Monongahela, etc. Co. v. Jutte,* 210 Pa. 288, 59 Atl. 1088; *Smith's Appeal,* 113 Pa. 579, 6 Atl. 251; *Harris Calorific Co. v. Marra,* 345 Pa. 464, 29 Atl. (2) 64.

which is legal *per se*[4], contains a plurality of promises by B that are supported by a single, lawful consideration from A, A may enforce such of those promises as do not contravene a federal statute, even though other obligations of B in the contract may be illegal.

As authority for that proposition, see *Cincinnati, etc. Co. v. Bay,* 200 U.S. 179, 26 S. Ct. 208 (1906), where under the contract in suit the owner of certain river vessels sold them and the purchaser in return agreed, among other things, (1) to pay for the vessels and (2) to *maintain traffic rates* at a certain level. This Court held that even if the latter promise was *void under the Federal Anti-Trust Act,* that fact did not relieve the purchaser from paying the purchase price. In its opinion, delivered by Justice Holmes, the Court said:

> "It only remains to say a word as to the agreement to maintain rates. This is a covenant by the purchaser, the plaintiff in error. It is not the covenant sued upon. It is not declared to enter into the consideration of the sale. *If necessary, we should be astute to avoid allowing a party to escape from his just and substantially legal undertaking on such a ground.* The argument on the other side requires us to import a subordinate undertaking of the buyer [to maintain rates] into the consideration [the promise to pay the purchase price] for that which was the consideration [the transfer of the vessels] of his debt, and, in that roundabout way, to make the debt unlawful. We shall not go into such nice-

---

[4] That the presence of a price fixing provision in the license contract is legal, was directly decided by this Court in *Bement v. National Harrow Co.*, 186 U.S. 70 and *U.S. v. General Electric Co.*, 272 U.S. 476.

ties beyond noticing that they are not encouraged by the cases."[5]

On analogous facts, this Court in the *MacGregor* case has been *astute to reach an opposite conclusion.*

This Court found obvious difficulty in articulating the rationale of its decision. The "reasons stated" in the companion *Katzinger* case[6] were that the obligation to pay royalties and the obligations to sell at fixed prices

"constituted an integrated consideration for the license grant. Consequently when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it."

The "reasons stated" are applicable only to a case where the promise sued upon is supported by an *"integrated consideration" that is in part illegal.* That was in effect, the holding of this Court in *Hazelton v. Sprechels,* 202 U.S. 71, 26 S. Ct. 567 (1906), cited in the

---

[5] See also *Williston On Contracts* (revised edition), section 1779, which contains the following statement:

"It was early decided that where some covenants of an indenture are legal and others illegal the legal covenants may be enforced. This is the simplest form of the problem of partly illegal contracts. *If legal consideration has actually been given* [here a license, unquestionably legal consideration, had been given by Westinghouse] *and a unilateral contract formed,* or if the promises are under seal and binding without consideration, *the rule thus early established has never been questioned."* (Citing numerous cases in this Court.)

[6] In the *MacGregor* case the Court said that

"For the reasons stated in today's *Katzinger* opinion we hold that the covenant to pay royalties was not severable from the covenant to sell at fixed prices."

Katzinger case to support the proposition quoted above.[7] But neither the *Hazelton* case nor the quoted proposition is applicable to the facts in the *MacGregor* case, *where the only one of MacGregor's promises sued upon (to pay royalties) is supported by a single, lawful consideration (the granting of the license).*

---

4. The decision fails to give effect to the patent laws as an established exception to the federal anti-trust laws. In its third footnote, the majority opinion states that:

> "The agreement to fix prices, if unlawful at all, was so whether it was executed or not. *U. S. v. Socony Vacuum,* 310 U.S. 150; *U. S. v. American Tobacco Co.,* 328 U. S. —."

The *Socony* case states at page 218:

> "Thus for over forty years this Court has consistently and without deviation adhered to the principle that price-fixing agreements are unlawful per se under the Sherman Act * * *."

That statement was made in a case in which *patents were not involved.* This Court has also since 1892 "consistently and without deviation adhered to the principle" that price restrictions in patents licenses are *not* unlawful under the Sherman Act. See *Bement v. National Harrow Co.,* 186 U.S. 70 and *U. S. v. General Electric Co.,* 272 U.S. 476. The present decision treats as

---

[7] In the *Hazelton* case, Justice Holmes was careful to point out that "Of course, we are not speaking of the prosecution of a lawful claim." The whole object of the contract in that case was illegal.

presumptively illegal a practice that this Court has expressly approved for over fifty years.

---

5. The decision imposes an unfair burden upon respondent in the further litigation of this case in the state courts.

(a) The Court's opinion infers that the trial court erred in holding that MacGregor's solders, covered by his own patents, come under the prior Westinghouse patent. It says (referring to MacGregor):

> "But he applied also for and obtained patents on these two latter solders which added tin and silver respectively to the phosphorus-copper combinations."

A little later, the Court points out that MacGregor pleaded that:

> "* * * by inadvertence and mistake he had paid royalties on solders covered by his own patents."

In the next paragraph, it says:

> "The state trial court declined to consider the validity of the [Westinghouse] patent, holding that it was presumed to be valid * * *. The trial court did not give a like presumption to the validity of the patents issued to MacGregor, but held that the solders covered by those patents infringed the presumptively valid patents of Westinghouse."[8]

In the footnote, keyed to the sentence just quoted, it says:

> "Since the case is to be remanded for trial of the validity of the patent, we find it unnecessary to consider the propriety in any event of indulging a pre-

sumption of validity in favor of Westinghouse's patent without giving a presumption of a patentable difference to those of MacGregor."

The inference raised by the foregoing statements that a product covered by a later patent cannot infringe an earlier patent is directly contrary to prior decisions of this Court. In *Temco v. Apco,* 275 U.S. 319, 48 S. Ct. 170 (1928), at page 328, this Court said:

"It is well established that an improver cannot appropriate the basic patent of another, and that the improver without a license is an infringer and may be sued as such * * *."

Likewise, in *Sanitary Refrigerator Co. v. Winters,* 280 U.S. 30, 50 S. Ct. 9 (1929), at page 43, the Court said:

"Nor is the infringement avoided, under the controlling weight of the undisputed facts, by any presumptive validity that may attach to the Schader patent by reason of its issuance after the Winters and Crampton patent."

The latest case on this point is one appearing in the Federal Reporter Advance Sheets for January 20, *Matthews v. Koolvent,* 158 F. (2) 37 (CCA 5). At page 40, the Court said:

"Much has been made of the fact that Houseman, himself, has a patent. It is even claimed that the grant of the patent to Houseman raises a presumption of noninfringement. It is well settled that the grant of a later patent to Houseman does not license him to use plaintiff's awnings if Matthews' patent was valid * * *. The fact that Houseman's patent was granted and that there were patentable

differences between Matthews' and Houseman's would not in any way tend to prove noninfringement by the defendant in this case."

(b) In the next to the last paragraph of its opinion, the Court says:

"But there are alternative federal questions raised here by MacGregor upon which decision might turn even though Westinghouse's patent be held valid."

By way of specification of those additional federal questions, the Court says:

"MacGregor pleaded that the price-fixing agreement so effectively wiped out all competition to Westinghouse in the manufacture and sale of these solders that the whole license contract should be held illegal as a violation of the Sherman and Clayton Acts."

The second specification of an "alternative federal question" is that:

"MacGregor also contended that the license contract should be held unenforceable in the courts on the ground that Westinghouse had attempted to use it to extend the patent scope beyond its lawful coverage."

We are unable to find a proper basis for these statements. They are obviously prejudicial to Westinghouse in its further proceedings in the courts below, since they indicate that there may be violations of federal law that may make the contract unenforceable even if the patent is valid. From any point of view, they will confuse the retrial of this case. After again litigating through the state courts, this Court may again take jurisdiction on some question of federal law, now apparent to this Court but neither decided nor made clear by its opinion.

6. The Court's opinion in the *Katzinger* case is so intertwined with its opinion in the *MacGregor* case that we must look to the former for the full reasoning of the Court. In the *Katzinger* case, the Court says that the *Sola* case:

> "was firmly grounded upon the broad public interest in freeing our competitive economy from the trade restraints which might be imposed by price-fixing agreements stemming from narrow or invalid patents".

It then refers to the *Marcalus* case and says regarding it:

> "In thus emphasizing the necessity of protecting our competitive economy *by keeping open the way for interested persons to challenge the validity of patents* which might be shown to be invalid, the Court was but stating an often expressed policy that 'It is the public interest which is dominant in the patent system' * * *"

After citing the *Mercoid* case, it goes on to say that

> "the right to challenge [validity] 'is not only a private right to the individual, but is founded on public policy which is promoted by his making the defense, and contravened by his refusal to make it.'"

It seems clear that the principles referred to in the foregoing quotations express the motivating philosophy of the Court in its decisions in both the *Katzinger* and *MacGregor cases.* Those principles make no reference to price-fixing, but only to the *dominant* interest of the public in "freeing our competitive economy" from restraints based on invalid patents.

Since price-fixing is not actually an issue in either the *Katzinger* case or the *MacGregor* case, being raised

in each *as a collateral defense* to enforcement of an *express contract,* it seems clear that the Court has seized upon the *presence* of price-fixing clauses in those contracts as an excuse for importing into these cases its philosophy that the public interest requires that validity be put in issue whenever a patent is either directly or indirectly before a court.

If the Court adheres to that reasoning in the *Katzinger* and *MacGregor* cases, there seems to be no escape from the conclusion that there can never under any circumstances be an estoppel, either arising from equitable considerations or provided by express contract, that will prevent an attack upon the validity of a patent by a licensee. Numbered paragraphs 5 and 6 of the dissenting opinion clearly indicate the inevitable effect of the present decision.

Conclusion.

It seems clear that the Court in this case has made a decision of great importance. We respectfully submit that it has done so without due consideration to its own cases which, if given effect, must have led to a contrary result. The fact that it has denied to a state court the right to interpret a contract in a suit between citizens of that state, according to the laws of that state, is revolutionary and will have far-reaching effects. It strikes at the independent, and heretofore respected, right of a state court to interpret contracts in accordance with state law.

On the point of estoppel, the Court may feel that it has not decided any general principle other than that, where a price-fixing clause is present in a license agreement, the defendant shall not be estopped to challenge

the validity of the patent. But the decisions of this Court are looked at by the courts below and by the public as establishing the principles upon which they are based, and it seems clear that in this case those principles lead to the results indicated in the dissenting opinion. In the *Sola* case, the Court decided only that where the plaintiff seeks to enforce a price-fixing clause, the defendant shall not be estopped to challenge validity. In the present case, it has extended that limited holding to a general holding that where a price-fixing clause is present, even though not sued upon and even after the clause has been cancelled, the defendant shall not be estopped. That the present decision will likewise be extended to eliminate any estoppel in any patent license, we believe to be inevitable.

It is respectfully submitted that the decision of the Court should go out only after the most mature consideration and after the specific points raised herein have been further argued and briefed to the Court by this respondent, and perhaps by others representing the public.

Respectfully submitted,

.....

JO. BAILY BROWN,
Attorney for Respondent.

February 7, 1947

CERTIFICATE OF COUNSEL.

I certify that this petition for rehearing is presented in good faith and not for purpose of delay. I believe it to be well founded in law and in fact.

.....

JO. BAILY BROWN